Warrington Products Limited
Annual Report 1973

Warrington Products Limited

Directors

Arnold M. Ludwick
John O. McCutcheon
James B. Miller
Patrick S. Milsom
Malcolm E. Morrison
Robert J. Slan
Jack E. Warrington

Officers

John O. McCutcheon Chairman of the Board.
Jack E. Warrington President.
Robert P. Curl Executive Vice-President.
David C. Tetley Secretary-Treasurer.

Registrar and Transfer Agent

The Canada Trust Company,
Montreal, Toronto, Winnipeg, Calgary and Vancouver.

Auditors

Touche Ross & Co.

Head Office

885 Don Mills Road, Don Mills, Ontario.

Financial Highlights

	Year ended December 31 1973	Four months ended December 31 1972
Sales	$17,938,936	$4,552,929
Net earnings	1,021,488	215,432
Working capital	973,331	1,137,833
Shareholders' equity	3,788,191	2,330,735
Common shares outstanding	1,040,708	930,345
Preference shares outstanding	—	32,665
Per common share	—	—
Net earnings	$ 1.05	$ .28
—fully diluted	$ .79	$ .17

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Warrington Products Limited

To The Shareholders

Warrington Products Limited in 1973 recorded a year of major growth with new records being set in consolidated sales of $17,938,936 and in net income of $1,021,488 after full taxes. Earnings per share were $1.05, based on the average number outstanding during the year and, assuming that all warrants and non-contingent convertible notes were converted into common shares, earnings would be $0.79 fully diluted.

Banner Industries and associated companies were acquired during 1973 and their results are included in the financial statements as of the effective date of purchase of May 1, 1973. On a proforma basis, assuming that the Banner operations were included with Warrington for the whole of 1973, we estimate that earnings per share would have been approximately $0.95 fully diluted.

Banner Industries operates as a supplier of decorative and ornamental hardware, hand tools, garden tools and similar products to the retail trade including the mass retailers. It is the dominant Canadian source of switch plates and has pioneered in the display and merchandising of many forms of cabinet and other hardware used in the home. Your directors are pleased to welcome Banner's founders, Norman Bacher and Tom Sved, and their staff into Warrington.

In 1973 Warrington continued its development as a fast growing Canadian company engaged in the manufacture and national distribution of products for the home in three groups: Appliances, Home Improvement Products, and Recreation Products.

As forecast in last year's Annual Report, Industrial Plastic Extrusions Ltd., constructed and put into operation a new plant in St. Hubert Industrial Park, on the outskirts of Montreal and a few miles from the existing plant. These new facilities were realized in record time and permitted a significant increase in production. The land area of the new site is large enough to accommodate both further expansion and the eventual relocation of the original plant. Banner Industries has recently completed a move to modern premises in Toronto, which will give them a 100% increase in working space.

Outlook

Like virtually all manufacturing companies today, Warrington's operating units are facing the problems of maintaining consistent raw materials supply, escalating materials prices and higher costs of money. In a time of historically high inflation rates, it is essential to cover higher costs with increased prices and yet preserve orderly marketing patterns. So far, our units have been able to accomplish this difficult task. Where imports are brought in from abroad, as is the case with several of the Danby and Banner product lines, the erratic behaviour of foriegn exchange rates represents an additional challenge to management skills.

Recent economic forecasts are predicting real growth of 4.5% in the Canadian GNP for 1974 with inflation continuing at rates of 8 to 10%. If these predictions are confirmed, Canada will show appreciably more real growth than the United States, due largely to our strong resource base. In contrast to U.S. performance, housing starts in Canada so far this year have held up, and are close to the record rates of the last two years. Personal savings have been maintained at high levels for the last two years and, in our view, there is ample reason to believe that consumer spending will be strong throughout 1974. These factors lead us to believe that 1974 will be a year of opportunity for each of our operating units.

Continuing inflation at or near the two figure level represents a serious and frightening threat to the stability of our economy. A major origin of this world-wide phenomenon is the surge of the last 2 years in the price of commodities, due largely to a series of crop failures. This will in time correct itself and in any case is outside the control of most central governments. However, of similar importance is excessive government spending, the classic initiator of inflation. It is to be hoped that the Canadian government, which has doubled its budget in the last five years, will begin to exercise restraint in its massive spending programs.

Capital Changes

The block of 400,000 shares formerly held by GBC Capital Ltd., was purchased by Cemp Investments Ltd., in October, 1973. At that time Cemp assumed the guarantee of the Corporation's bank loan of $1,500,000, and extended it to $2,050,000 to assist with the purchase of Banner Industries.

Management intends to retire bank loans with an equity issue when security market conditions permit.

To obtain additional funds for the purchase of Banner private placements of 53,847 shares to yield $350,000 were made in October, 1973.

Acquisition

Most of our shareholders are aware that Warrington has announced agreement in principle to offer to purchase all the issued and outstanding Class B and Class C shares of Greb Industries Limited at $16.50 cash per share. The agreement is subject to successful completion of a financial examination of Greb by Warrington.

Greb Industries was founded in 1912 and has been developed by the Greb family into Canada's largest supplier of casual and sporting shoes boots and skating outfits. The 'Hush Puppies' and 'Bauer' trade names are very widely known. Interim financing has been arranged and is noted later in this report.

The directors and management wish to express their appreciation of the skills and efforts of all members of the Warrington group during 1973.

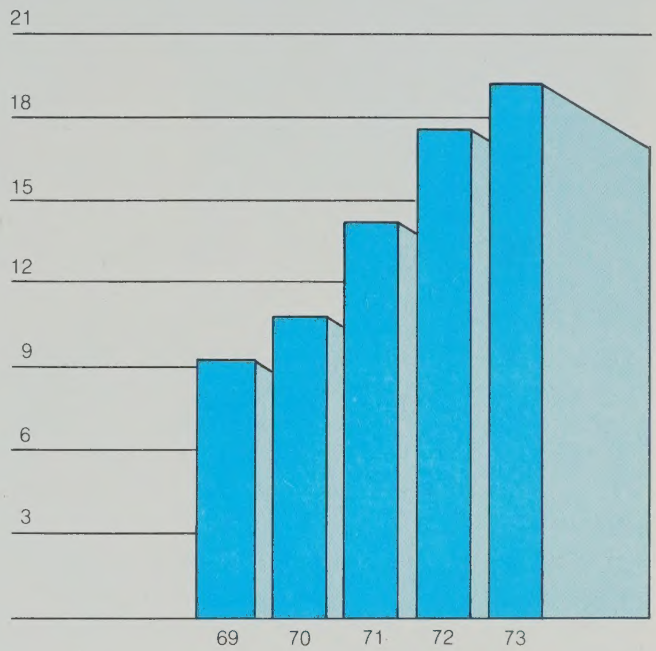
On behalf of the Board,

John O. McCutcheon
Chairman of the Board.

Charts reflect internal growth only, on a recast basis, assuming all current subsidiaries had been acquired on January 1, 1969.

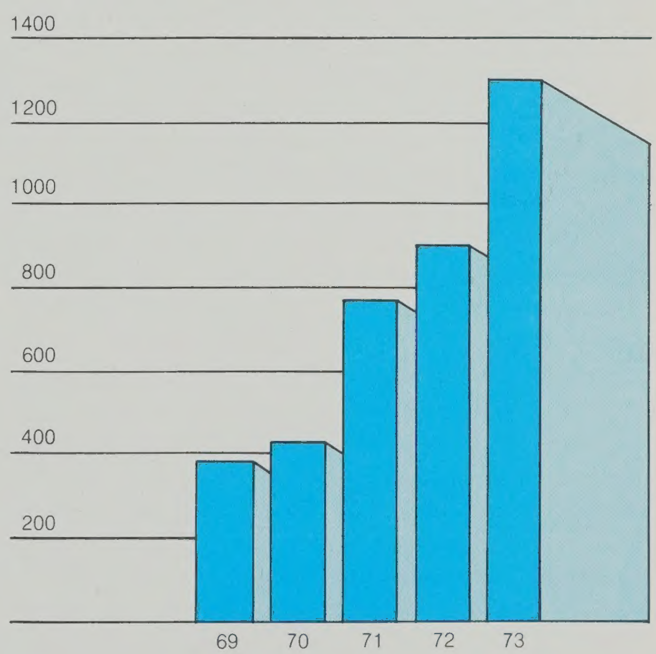
Sales

Millions of dollars



Earnings

Thousands of dollars



Warrington products for the home

The development, manufacture and marketing of products utilized in and around the home is the theme of Warrington.

- Warrington
  - Appliances
  - Home Improvements
  - Recreation

Future plans are being formulated around this theme and the three main product groupings that contribute to the total line of Warrington products.

Appliances

The Appliance line of products are manufactured and marketed by The Danby Corporation, located in Montreal Danby, one of the original marketers of compact appliances in Canada has come to be recognized as the industry leader.

- Manufactured Products
  - Ranges
  - Small Appliances
  - Barbecues
  - Metal Cabinets

Traditionally a major supplier of compact ranges (24″) and rangettes, Danby has recently entered the 'standard size' range market with the successful introduction of their 30″ range.

The small appliance product line has also been expanded with the introduction of two table top ranges. In addition the Danby deep fryer has undergone a number of improvements and for the first time is available in colour.

Marketing both under private label and under the Bronco brand name, Danby has established itself as a major supplier of barbecues in Canada. Their portable gas barbecue introduced in 1973 is unique in the market and as a result of the advantages it offers over charcoal barbecues continues to receive increased customer acceptance.

An expansion program has recently been completed that will permit Danby to substantially increase its metal cabinet line. These products currently marketed in Quebec and Ontario complement the Danby metal fabricating operation.

Danby's line of compact refrigerators and freezers manufactured by Ignis of Italy continues to dominate the compact appliance market in Canada. In 1973 the company introduced two

- Imported Products
  - Refrigerators
  - Freezers

new models of upright freezers that have received excellent support at the consumer level. While uprights still hold a relatively small share of the total freezer market this is increasing rapidly. In an effort to expand its product line Danby recently concluded an agreement with Ibellsa, a company jointly owned by the Zanussl Company, the largest Italian manufacturer of appliances, and an agency of the Spanish Government. Ibellsa will supply Danby with a 13 cubic foot refrigerator that will be marketed as a companion unit to the recently introduced 30″ range.

The growth rate of the compact appliance market, three times that of the standard size appliance market, and the successful introduction of the 30″ range, are both expected to contribute to Danby's growth rate continuing to exceed that of the appliance industry.

Home Improvements

The two companies contributing products in this area are Banner Industries and Industrial Plastics.

Banner Industries, the company's most recent acquisition, has become a major factor in the Canadian Decorative Hardware market.

- Banner Industries
  - Decorative Switch Plates
  - Decorative Cabinet Hardware
  - Garden Tools
  - Decorative Spindles and Plaques
  - Hand Tools

Through an aggressive program of product introduction and merchandising innovation Banner is now the largest manufacturer and supplier of decorative switch plates in Canada. Its switch plate manufacturing facility has evolved into one of the most integrated in North America.

(Right) The growth rate of compact appliances continues to outperform that of the standard size market. As the largest supplier of compact appliances in Canada the company benefits from this growth.


Danby
Danby

1

2

3

(1) The new product offering of the Charm-n-style line of decorative hardware have allowed it to continue to increase its market position.

(2) Bronco barbecues and Banner garden tools have captured significant shares of their respective markets.

(3) Symbolic house constructed from a sampling of the many custom extrusions manufactured for the construction market.

(4) Jetliner luggage continues to dominate the Canadian fashion luggage scene.

4

The company's line of decorative cabinet hardware has also captured a significant share of the Canadian market. Banner's unique point of sale displays have been an important contributor to their market penetration and related sales success.

As an important supplier of promotional lawn care and garden tools, Banner is benefiting from the increased consumer interest in gardening. To further strengthen its market position the company is evaluating a program to increase the Canadian manufacturing content of this product line.

The company has the exclusive Canadian marketing rights to the 'Repli-carve' line of decorative spindles and plaques. As the market leader with this product line the company has benefited significantly from the increased interest in home improvements.

Banner also acts as a commission agent for the Oxwall line of hand tools. Oxwall, a wholly owned subsidiary of Consolidated Foods in the United States, is the largest supplier of promotional hand tools in North America.

Although Banner has been in the decorative hardware field for less than fifteen years it has come to dominate the product areas in which it operates. The continuing rising interest in home improvements, in addition to the company's merchandising aggressiveness, should ensure a continuing rapid growth in sales.

Industrial Plastic which also contributes to the Home Improvement product area, has established itself as one of the largest custom extruders of plastic in Canada. The majority of the company's products are manufactured for the window market. Vinyl window frames, with a number of advantages over the traditional aluminum frames, continue to increase their share of the window frame market.

Industrial Plastic, primarily as a result of their success in meeting the high standards demanded by their customers, has outperformed the plastics industry growth rate by a ratio of 2:1. Although the plastics industry in general finds itself faced with restrictions on the availability of raw material, Industrial Plastics, because of its position in the market, is expected to continue to outperform the industry.

Recreation

In the recreation product grouping Dominion Luggage currently is the sole contributor with its Jetliner Fashion luggage. Dominion, traditionally a style leader in the Canadian luggage industry, has one of the most fully integrated luggage manufacturing facilities in North America. While currently occupying the number one position in luggage sales in Canada, Dominion also is a respectable fifteenth in the ranking of all North American luggage manufacturers.

Having recently entered the export market Dominion now markets its products in the United States, United Kingdom, British West Indies, Germany and Australia. New products introduced in 1974, future products planned and continued expansion of the export sales market indicate a period of continued growth for the luggage products.

Auditor's Report

Touche Ross & Co.

1 Place Ville Marie
Montreal, Quebec H3B 2A2
(514) 861-8531

The Shareholders,
Warrington Products Limited.

We have examined the consolidated balance sheet of Warrington Products Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Touche Ross & Co

Chartered Accountants, Montreal, Quebec.
May 7, 1974.

Consolidated Balance Sheet
as at December 31, 1973

Assets	1973	1972
Current		
Cash	$ 332,987	$ 482,216
Accounts receivable (Note 3)	3,620,598	2,783,963
Inventories at the lower of cost and net realizable value (Note 3)	5,203,640	4,222,638
Prepaid expenses	46,633	35,118
	9,203,858	7,523,935
Fixed assets		
Land, building and equipment, at cost	1,554,970	1,023,526
Less: Accumulated depreciation	671,531	564,797
	883,439	458,729
Excess of cost of investment in subsidiary companies over net book value at dates of acquisition (Notes 1, 4 and 9)	6,393,561	3,485,840
	$16,480,858	$11,468,504

On behalf of the Board:
J. O. McCutcheon Director
A. M. Ludwick Director

Liabilities	1973	1972
Current		
Bank indebtedness (Note 3)	$ 4,617,032	$ 1,997,690
Accounts payable and accrued liabilities	2,261,850	1,861,702
Income taxes payable	561,645	579,775
Amount payable re acquisition of subsidiary company	—	1,475,000
Loan payable	—	212,000
Notes payable (Note 4)	790,000	259,935
	8,230,527	6,386,102
Long-term debt		
Notes payable (Note 4)	4,421,667	2,751,667
Deferred income taxes	40,473	—
Contingencies and commitments (Note 9)		
Shareholders' Equity		
Capital stock (Note 5)		
8% non-cumulative redeemable (at $4.86) convertible preference shares, par value $4.50 each	—	146,993
Common shares, no par value	2,660,350	2,077,047
	2,660,350	2,224,040
Contributed surplus	—	7,500
Retained earnings	1,127,841	99,195
	3,788,191	2,330,735
	$16,480,858	$11,468,504

Consolidated Statement of Earnings and Retained Earnings

For the year ended December 31, 1973

	Year ended December 31, 1973	Four months ended December 31, 1972 (Note 2)
Sales	$17,938,936	$ 4,552,929
Cost of sales	13,196,558	3,433,579
Gross profit	4,742,378	1,119,350
Expenses		
Distribution and marketing	1,378,442	471,450
Administration	1,025,031	227,475
Interest on long-term debt	325,370	12,872
	2,728,843	711,797
Earnings before income taxes	2,013,535	407,553
Income taxes (Note 6)	992,047	192,121
Net earnings	1,021,488	215,432
Retained earnings (deficit) at beginning of period	99,195	(116,237)
Transferred from contributed surplus	7,500	—
Premium on redemption of preference shares (Note 5)	(342)	—
Retained earnings at end of period	$ 1,127,841	$ 99,195
Earnings per share (Note 8)	$ 1.05	$ .28
Earnings per share fully diluted (Note 8)	$ .79	$ .17

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1973

	Year ended December 31, 1973	Four months ended December 31, 1972 (Note 2)
Source of funds		
From operations		
Net earnings	$ 1,021,488	$ 215,432
Amounts charged against income but not requiring an outlay of funds		
Depreciation	125,256	31,631
Deferred income taxes	40,473	—
	1,187,217	247,063
Issuance of common shares	440,585	1,506,020
Issuance of long-term debt	2,480,000	1,500,000
	4,107,802	3,253,083
Application of funds		
Acquisition of subsidiary companies	3,614,099	3,171,696
Less: Working capital acquired	669,895	808,342
	2,944,204	2,363,354
Long-term debt paid or due within one year	810,000	33,333
Redemption of preference shares	4,617	—
Purchase of fixed assets, other than those acquired on the purchase of subsidiary companies	513,483	33,390
	4,272,304	2,430,077
Increase (decrease) in working capital	(164,502)	823,006
Working capital at beginning of period	1,137,833	314,827
Working capital at end of period	$ 973,331	$ 1,137,833

Notes to the Consolidated Financial Statements

December 31, 1973

1. Basis of Statement Presentation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The acquisitions of subsidiary companies have been accounted for as purchases and accordingly their earnings have been included in the consolidated statements only from the dates of acquisition. It is the Corporation's policy not to amortize the excess of cost of investment in subsidiary companies over net book value at dates of acquisition unless the value of this excess is impaired.

Effective May 1, 1973, the Corporation acquired on the following terms all of the outstanding shares of Bachnor Manufacturing Co. Limited, Tom Sved Limited, and Sundry Merchandise Sales Limited hereinafter referred to as Banner Industries.

Cost of investment	
Cash	$ 881,428
Notes payable (Note 4)	600,000
Warrants to purchase 30,000 shares of the Corporation at $8.00 per share, exercisable to October 31, 1978	–
	1,481,428
Net book value of Banner Industries at date of acquisition	706,378
Excess of cost of investment over net book value at date of acquisition	$ 775,050

During the year the Corporation became obliged to pay certain additional amounts relating to the acquisition of subsidiary companies (see Notes 4 and 9) and charged these amounts to the excess of cost of investment in subsidiary companies over net book value at dates of acquisition.

Balance at December 31, 1972	$3,485,840
Additions during year	
– Acquisition of Banner Industries	775,050
– Additional amounts payable to vendors	2,037,435
– Other costs of acquisitions	95,236
Balance at December 31, 1973	$6,393,561

Further considerations may be payable as described in Note 9.

2. Change of Year-end and Comparative Figures

The Corporation changed its year end from August 31 to December 31 effective December 31, 1972 and audited financial statements are not available for the year ended December 31, 1972.

Certain of the figures for the four months ended December 31, 1972 have been restated for comparison.

3. Bank Indebtedness

The following assets have been pledged as security for bank indebtedness:

	1973	1972
Accounts receivable	$3,581,000	$2,380,842
Inventories	2,476,000	484,000

The Danby Corporation, as security for $1,000,000 Banker's Acceptance, has issued 12% Demand Debentures under a trust deed, which bear a floating charge on all the assets of Danby in favour of its bankers.

Bank loans of the parent Corporation amounting to $2,050,000 are guaranteed by Cemp Investments Ltd., a principal shareholder of the Corporation at a cost to the Corporation of 2% per annum and the issue of 36,667 warrants to Cemp entitling the holder to purchase common shares of the Corporation at a price of $6.86 each, until October 25, 1978.

4. Long-term Debt

Notes payable related to the acquisition of the following companies:

	1973	1972
Industrial Plastic Extrusions Ltd.		
5% Notes payable in four equal annual instalments of $46,619.50 including interest on June 5, 1974-1977	$ 160,000	$ 200,000
5% Notes payable June 5, 1982 with annual interest of $10,000 due each anniversary, convertible into common shares at $2 per common share until June 5, 1977 and $5 per common share until maturity	200,000	200,000
The Danby Corporation		
5% Note payable in fifty-nine equal monthly instalments of $8,333 plus interest calculated half yearly	491,667	591,667
5% Note payable November 2, 1977 with interest due quarterly, convertible into common shares at $6 per common share anytime until maturity	400,000	400,000

	1973	1972
Non-interest bearing Note due July 1, 1974 payable one half in cash and one half in common shares of the Corporation valued at the average market price in May, 1974.	180,000	119,935
Dominion Luggage Co. Limited		
4% Notes payable in four annual instalments of $150,000 on January 30, 1974-1977 and one instalment of $900,000 on January 30, 1978 with interest payable quarterly.	1,500,000	1,500,000
4% Notes payable February 2, 1978 with interest due quarterly, convertible into common shares at $8 per common share anytime until maturity.	1,500,000	—
Banner Industries		
4% Notes payable in fifty-eight equal monthly instalments of $10,000 plus interest calculated monthly.	580,000	—
Non-interest bearing Note due June 30, 1974 payable one half in cash and one half in common shares of the Corporation valued at the average market price in May, 1974.	200,000	—
	5,211,667	3,011,602
Less: Amounts due within one year shown in current liabilities	790,000	259,935
	$4,421,667	$2,751,667

5. Capital Stock, Share Purchase Warrants and Stock Options

During the year all of the Corporations 8% non-cumulative redeemable convertible preference shares of a par value of $4.50 per share were either converted into common shares or were redeemed at a price of $4.86 per share.

The following table shows the changes in the preference and common shares of the Corporation during the year ended December 31, 1973.

	Preference		Common	
	Shares	Amount	Shares	Amount
Outstanding December 31, 1972	32,665	$146,993	930,345	$2,077,047
Issued for cash	—	—	62,698	408,685
Converted during the year	(31,715)	(142,718)	31,715	142,718
Issued for cash on the exercise of warrants	—	—	15,950	31,900
Redeemed	(950)	(4,275)	—	—
Outstanding December 31, 1973	—	$ —	1,040,708	$2,660,350
Authorized December 31, 1973	—	$ —	3,000,000	no par value

The Corporation has issued share purchase warrants entitling the holders to purchase an equivalent number of common shares of the Corporation as follows:

Warrants Outstanding Dec. 31, 1972	Exercised During Year	Issued During Year	Warrants Outstanding Dec. 31, 1973	Price at which Common shares May be Purchased	Exercisable on or Before
71,990	15,950	—	56,040	$2.00	July 31, 1976
120,000	—	—	120,000	2.00	May 31, 1977
20,000	—	—	20,000	5.00	Dec. 31, 1977
—	—	100,000	100,000	6.44	Aug. 1, 1978
—	—	30,000	30,000	8.00	Oct. 31, 1978
—	—	36,667	36,667	6.86	Oct. 25, 1978
211,990	15,950	166,667	362,707		

During the year the Corporation granted stock options to certain officers and employees of the Corporation and its subsidiaries to purchase common shares of the Corporation as follows:

Common shares	Price at which common shares may be purchased	Exercisable on or before
10,000	$7.52	Feb. 27, 1978
2,500	7.00	Apr. 2, 1978
12,500		

The Corporation has reserved 767,394 common shares for the following purposes:

Exercise of warrants	362,727
Exercise of stock options	12,500
Conversion of Notes payable	392,167
	767,394

The Corporation has set aside an additional 73,149 common shares for the contingent issuance to the vendors of the subsidiary companies (see Note 9).

6. Income Taxes

The Corporation has non-capital losses of approximately $526,000 which may be carried forward and deducted from the income of the Corporation in each of its taxation years until 1978 in computing taxable income in each of these years.

7. Remuneration of Directors and Senior Officers

During the year ended December 31, 1973 the aggregate direct remuneration paid or payable by the Corporation to the senior officers of the Corporation as a group aggregated $73,887 (four months to December 31, 1972—$14,084).

8. Earnings per Share

Earnings per share are computed on the weighted average of common shares outstanding during the period.

Fully diluted earnings per share give effect to the exercise of outstanding warrants and stock options, the conversion of preference shares and to the conversion privileges attached to the notes payable, but not to the shares which may be issued as outlined in Note 9 because such issues will not have a dilutive effect.

9. Contingencies and Commitments

(a) The Corporation is contingently liable to vendors of subsidiary companies as follows:

Industrial Plastic Extrusions Ltd.

If the aggregate pre-tax profits of Industrial exceed $2,267,500 for the five year period from April 1, 1972 to March 31, 1977, the Corporation is required to pay to the vendors of the shares of Industrial amounts up to $800,000 provided that if such pre-tax profits are less than $2,267,500 such amounts are subject to reduction from $800,000 to nil proportionately as such profits decrease from $2,267,500 to $1,250,000. This sum of $800,000 is payable in annual instalments of up to $160,000 on May 31 in each of the years 1973 to 1977 based on the aggregate pre-tax profits of Industrial earned to March 31, in year of payment.

If the cumulative pre-tax earnings of Industrial for the five years ended March 31, 1977 exceed $2,267,500, Industrial has agreed to pay, and if Industrial defaults the Corporation has agreed to pay, additional remuneration to two of its executives (one of whom is a director of the Corporation). This remuneration will depend on the amount of the excess earnings and on the average market price of the common shares of Warrington Products Limited during the five years ended March 31, 1977 and during the month of March, 1977.

The Danby Corporation

The Corporation is required to pay to the vendor of Danby amounts up to $2,000,000 in annual instalments commencing July 1, 1973 and ending on July 1, 1977. Each annual instalment will be the amount of net after-tax profit of Danby for the immediately preceding fiscal year in excess of $200,000 up to a maximum instalment of $400,000 payable as to 50% in cash and as to the balance in common shares of the Corporation. Where net after tax profits in any one year exceed $600,000 the excess may be carried forward or backward in order to offset any deficiency in a prior or subsequent year.

Dominion Luggage Co. Limited

Non-interest bearing unsecured debentures have been issued by the Corporation to the vendors of the shares of Dominion which provide that the amounts payable to the vendors thereunder shall be nil if the aggregate net after-tax profits of Dominion for the five fiscal years of Dominion ending December 31, 1978 are less than $2,613,800, will increase from nil to $600,000 at the rate of $6 for every $1 of net after-tax profits in excess of $2,613,800 and will increase from $600,000 to $1,100,000 at the rate of $1 for every $20 of net after-tax profits in excess of $2,713,800.

Banner Industries

Non-interest bearing debentures have been issued by the Corporation to the vendors of Banner Industries which call for payment of up to $1,524,570 in annual instalments commencing on June 30, 1974 and ending on December 31, 1978. Each annual instalment will be the amount of net after-tax profit of Banner in excess of $75,000 for the eight months ended December 31, 1973, $150,000 for each of the years ended December 31, 1974-1977 and $75,000 for the six month period ended June 30, 1978. These instalments are payable as to 50% in cash and as to the balance in common shares of the Corporation.

(b) Manufacturing and warehousing premises are rented under various leases and for different periods terminating in 1974 to 1983. The aggregate annual rental for 1974 is $280,000.

10. Events Subsequent to Balance Sheet Date

On April 30, 1974 an agreement in principale was reached by the Corporation with the principal shareholders of Greb Industries Limited whereby the Corporation will offer to purchase for cash all of the outstanding Class B and Class C preference shares of Greb Industries Limited. If all of these shares are acquired the cost to the Corporation will be approximately $11,200,000. The agreement is subject to the satisfactory completion by the Corporation of a financial examination of Greb Industries Limited.

In order to finance this proposed acquisition, the Corporation has arranged to borrow from its principal banker an amount of $9,500,000 and to sell to Cemp Investments Ltd. approximately 400,000 common shares for $2,000,000. The bank loan is subject to completion of a formal loan agreement; the private placement of shares is subject to approval by the appropriate regulatory authorities.